



Strengthening Private Sector Participation for Infrastructure in the Pacific Region

Ensuring Value and Performance for Money

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 **ERNST & YOUNG**

Quality In Everything We Do

PPPs – Getting it right up-front

- ▶ Political commitment
- ▶ Clear business case for **the Project**:
“is this a PPP looking for a Project”?
- ▶ Realistic affordability analysis
- ▶ Market engagement well before commencing a bid process
- ▶ Ignore precedent at your peril
- ▶ Well resourced integrated team, that operates as a team
- ▶ Realistic and efficient transaction strategy

PPP Benefits ... if structured properly

- ▶ Incentivise whole-life approach
- ▶ Private financing drives value and discipline
- ▶ Real risk transfer
- ▶ “Underwritten” long-term solution
- ▶ Robust competition drives value

Value for Money assessment against the PSC
does not reflect the true value inherent in PPP

Successfully delivering PPPs Starts with the government project team

Aim	Issues	How?
Close Government stakeholder interaction	<ul style="list-style-type: none">•Understanding the delivery model•Embracing the delivery model•General PPP v project specific requirements	<ul style="list-style-type: none">▶ Putting together the team<ul style="list-style-type: none">▶ Project specific specialists and PPP specialists▶ Mandate for all stakeholders to deliver the project▶ Design process to drive<ul style="list-style-type: none">▶ Disclosure▶ Early communication▶ Real input▶ Adherence to an agreed decision making framework

Successfully delivering PPPs Starts with the government project team

Aim	Issues	How?
Integration between technical and commercial	<ul style="list-style-type: none">• Interfaces are where the challenges arise• Technical constraints drive constraints on the commercial risk allocation• Internal process is often designed to divide technical from commercial	<ul style="list-style-type: none">▶ Design team forums with commercial and technical representatives▶ Joint responsibility for delivery of the overall project▶ Insist on integrated and consistent documentation

Successfully delivering PPPs Starts with the government project team

Aim	Issues	How?
A coherent RFP package capable of acceptance	<ul style="list-style-type: none">•Government cannot decide internally•Go with lowest common denominator and leave it to the market	▶ Commitment to going out with a bankable outcome

Successfully delivering PPPs

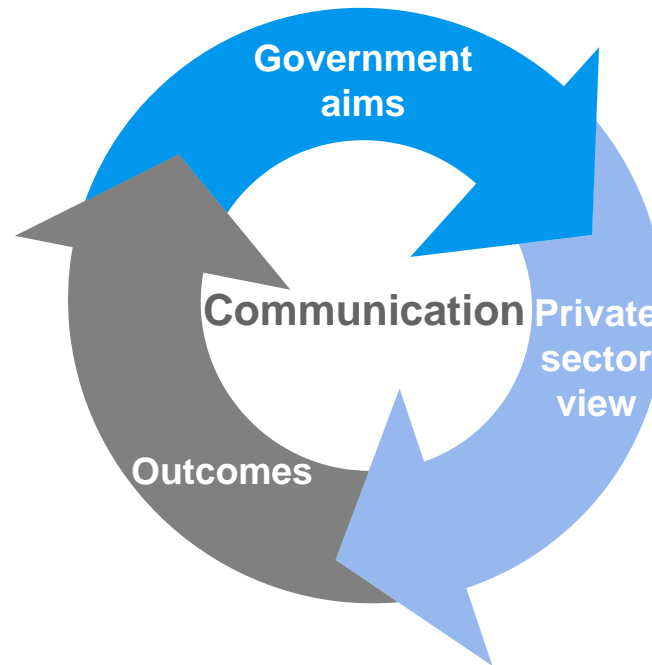
Interaction with the private sector

- ▶ The effectiveness of the State's procurement processes will be enhanced if private sector perspectives are properly factored in to process design decisions
- ▶ What are the State's aims?
- ▶ How are these aims perceived by the private sector
- ▶ How does the private sector respond?
- ▶ Focus on key areas of:
 - ▶ risk allocation
 - ▶ process
 - ▶ communication

Successfully delivering PPPs

Engagement with the private sector - communication

- ▶ Good and realistic bids
- ▶ Bids aligned with State expectations



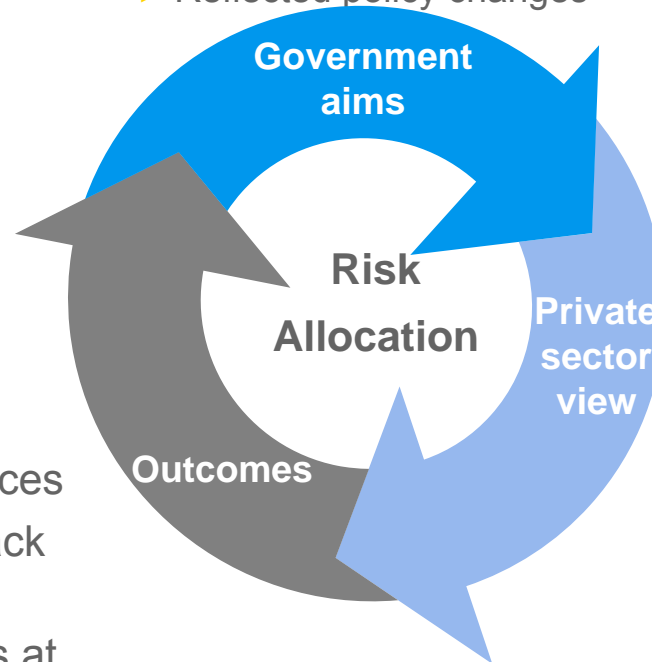
- ▶ Bids much closer to what State wants
- ▶ Time to deal with innovation
- ▶ Lowers bid costs

- ▶ Certainty is paramount
- ▶ Is innovation valued?
- ▶ Process for clarification
 - ▶ Some issues are problems, not negotiations
 - ▶ The value of reasons – sometimes the sponsors need the State's help

Successfully delivering PPPs

Risk allocation

- ▶ Optimal risk allocation
- ▶ Consistent with market
- ▶ Address deal specific issues
- ▶ Reflected policy changes



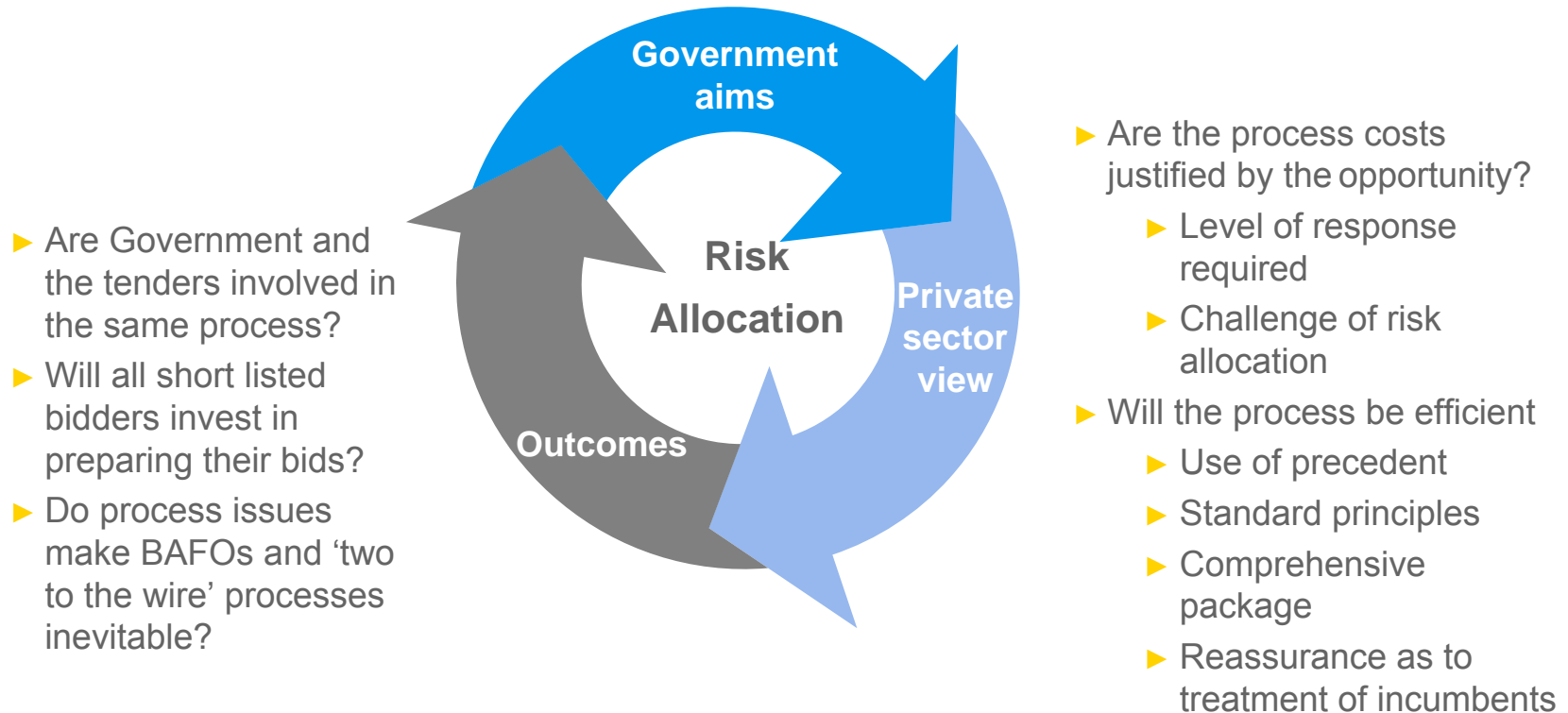
- ▶ Can tenderers participate?
- ▶ Diversion of resources
- ▶ Address via the 'back door'
- ▶ Price contingencies at 100%

- ▶ Government risk allocation is more challenging than private sector's
- ▶ Transfer of risk is seen as good for its own sake
- ▶ Has Government resolved its internal position?
- ▶ Have Government's legal advisors been properly tested?
- ▶ Does the Government want 'insurance' or to allocate risk where it can best be managed?

Successfully delivering PPPs

Process

- ▶ Good proposals submitted
- ▶ Fair and perceived to be fair
- ▶ Competitive
- ▶ Achieve timetable



Ensuring Value and Performance

- ▶ Contract Award is beginning of Concession!
Public sector rate of effort needs to be maintained
- ▶ Effective Contract Management essential to ensure obtain VfM and Risk Allocation that has been negotiated
- ▶ PPP projects are typically complex and require effort to manage:
 - ▶ Payment mechanisms
 - ▶ Variations and change inevitable over the long term
 - ▶ Government can be a partner as sole or co-service provider
- ▶ Objectives of contract management are to:
 - ▶ Effectively manage Government's risks
 - ▶ Ensure outcomes bid are delivered

Ensuring Performance – Payment Mechanism

- ▶ Payment Mechanism should provide realistic, challenging but achievable availability and performance standards for private sector
 - ▶ Must be capable of objective measurement
 - ▶ Must be recordable and reflect commercial reality!
- ▶ Provides private sector with incentive to meet the required standards and to rectify problems
- ▶ Allows payments to match standards of service – no service no fee!
- ▶ Encourages private sector to innovate and secure efficiency gains
- ▶ Essential that it is objective, transparent and easy to operate

Ensuring Performance - Contract Management

- ▶ Contract management framework to have 3 pillars:
 - ▶ Quality of Government's counterparty
 - ▶ Key issue is ongoing credit-worthiness of private sector entity
 - ▶ Quality of management of contract by public sector
 - ▶ Key issue is building and maintaining a relationship
 - ▶ Quality of the underlying contract
 - ▶ Key issue is clarity of performance requirements and reporting obligations
- ▶ Public sector needs to understand the business of the provider
 - ▶ Early warnings on health of counterparty

Ensuring Performance - Implementation

- ▶ Role of contract administration manual
 - ▶ understand provisions of contract including dispute resolution
 - ▶ allocate responsibilities and resources
 - ▶ describe reporting and monitoring requirements (templates for payment and KPI monitoring)
 - ▶ contingency planning where service interruption
- ▶ Continuity and retention of corporate knowledge in public sector is crucial
 - ▶ Continuity of personnel from procurement process to operating phase
 - ▶ Commitment of senior staff to manage contract and build relationship

Conclusion

➤ **PPPs can:**

- ▶ Promote innovation
 - ▶ Attract long-term private investment and expertise
 - ▶ Allow Government to retain public provision of services
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- ▶ A PPP can and should be “Win-Win”
 - ▶ Governments need to be committed and have perspective
 - ▶ Private sector need to be committed and selective